

Consolidated Financial Statements

**Rainy River Resources Ltd.**  
**(formerly Collingwood Capital Corporation)**  
September 30, 2005

## AUDITORS' REPORT

To the Shareholders of  
**Rainy River Resources Ltd.**  
(formerly Collingwood Capital Corporation)

We have audited the consolidated balance sheet of **Rainy River Resources Ltd. (formerly Collingwood Capital Corporation)** as at September 30, 2005 and the consolidated statements of operations and deficit and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at September 30, 2005 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The consolidated financial statements as at September 30, 2004 and for the fifteen months then ended were audited by other auditors who expressed an opinion without reservation on those statements in their report dated January 24, 2005.

Vancouver, Canada,  
December 16, 2005.

*Ernst & Young LLP*

Chartered Accountants

**Rainy River Resources Ltd.**  
(formerly Collingwood Capital Corporation)

**CONSOLIDATED BALANCE SHEETS**

As at September 30

	2005 \$	2004 \$
<b>ASSETS [note 4]</b>		
<b>Current</b>		
Cash and cash equivalents	1,855,772	35,542
Marketable securities [note 3]	184,129	575,197
Accounts receivable	76,018	—
Current assets of discontinued operations [note 6]	—	119,551
	<b>2,115,919</b>	<b>730,290</b>
Mineral properties [note 5]	4,150,676	—
Investments [note 7]	528,235	528,235
Equipment [note 9]	44,104	—
	<b>6,838,934</b>	<b>1,258,525</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	181,022	24,204
Current portion of long term debt [note 4]	1,000,000	—
Current liabilities of discontinued operations [note 6]	—	19,551
	<b>1,181,022</b>	<b>43,755</b>
Long term debt [note 4]	500,000	—
	<b>1,681,022</b>	<b>43,755</b>
Subsequent events [note 13]		
<b>Shareholders' equity</b>		
Share capital [note 8[a]]	8,074,403	4,743,033
Contributed surplus [note 8[c]]	1,421,119	—
Deficit	(4,337,610)	(3,528,263)
	<b>5,157,912</b>	<b>1,214,770</b>
	<b>6,838,934</b>	<b>1,258,525</b>

See accompanying notes

On behalf of the Board:

“Charles Raymond”  
Director

“Leo Berezan”  
Director

**Rainy River Resources Ltd.**  
(formerly Collingwood Capital Corporation)

**CONSOLIDATED STATEMENTS OF  
OPERATIONS AND DEFICIT**

	Year ended September 30 2005 \$	Fifteen months ended September 30 2004 \$
<b>REVENUE</b>		
Interest income	1,137	8,897
Gain on sale of marketable securities	265,532	113,315
	<b>266,669</b>	<b>122,212</b>
<b>EXPENSES</b>		
Amortization	5,275	3,267
Stock-based compensation <i>[note 8[c]]</i>	442,662	—
General and administrative <i>[schedule]</i>	468,837	265,079
	<b>916,774</b>	<b>268,346</b>
Operating loss	<b>(650,105)</b>	<b>(146,134)</b>
<b>Other items</b>		
Write-down of marketable securities	<b>(28,247)</b>	<b>(32,517)</b>
Write-down of investment <i>[note 7]</i>	<b>(2,975)</b>	<b>(35,431)</b>
	<b>(31,222)</b>	<b>(67,948)</b>
Loss from continuing operations	<b>(681,327)</b>	<b>(214,082)</b>
Loss from discontinued operations <i>[note 6]</i>	<b>(128,020)</b>	<b>(260,000)</b>
<b>Loss for the period</b>	<b>(809,347)</b>	<b>(474,082)</b>
Deficit, beginning of period	<b>(3,528,263)</b>	<b>(3,054,181)</b>
<b>Deficit, end of period</b>	<b>(4,337,610)</b>	<b>(3,528,263)</b>
<b>Loss per share - basic and diluted</b>		
Loss from continuing operations	<b>(0.02)</b>	<b>(0.01)</b>
Loss from discontinued operations	<b>(0.01)</b>	<b>(0.02)</b>
Loss for the period	<b>(0.03)</b>	<b>(0.03)</b>
<b>Weighted average number of common shares outstanding - basic and diluted</b>		
	<b>27,668,379</b>	<b>13,006,472</b>

*See accompanying notes*

**Rainy River Resources Ltd.**  
(formerly Collingwood Capital Corporation)

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

	Year ended September 30 2005 \$	Fifteen months ended September 30 2004 \$
<b>OPERATING ACTIVITIES</b>		
Loss for the period from continuing operations	(681,327)	(214,082)
Adjustment for items not involving cash:		
Amortization	5,275	3,267
Stock based compensation	442,662	—
Gain on sale of marketable securities	(265,532)	(113,315)
Write-down of marketable securities	28,247	32,517
Write-down of investment	2,975	35,431
	(467,700)	(256,182)
Change in non-cash working capital items:		
Accounts receivable	(76,018)	20,272
Accounts payable and accrued liabilities	156,818	(47,610)
Cash used in continuing operations	(386,900)	(283,520)
Cash used in discontinued operations	(28,020)	(100,000)
<b>Cash used in operating activities</b>	<b>(414,920)</b>	<b>(383,520)</b>
<b>INVESTING ACTIVITIES</b>		
Purchase of equipment	(49,379)	—
Purchase of marketable securities	(167,500)	(554,088)
Proceeds from sale of marketable securities	795,853	313,681
Investment	(2,975)	(35,431)
Purchase of mineral properties	(1,501,311)	—
<b>Cash used in investing activities</b>	<b>(925,312)</b>	<b>(275,838)</b>
<b>FINANCING ACTIVITIES</b>		
Proceeds on exercise of stock options	52,005	—
Issue of common stock	3,276,457	—
Share issue expenses	(168,000)	—
<b>Cash provided by financing activities</b>	<b>3,160,462</b>	<b>—</b>
<b>Increase (decrease) in cash and cash equivalents</b>	<b>1,820,230</b>	<b>(659,358)</b>
Cash and cash equivalents, beginning of period	35,542	694,900
<b>Cash and cash equivalents, end of period</b>	<b>1,855,772</b>	<b>35,542</b>
<b>Supplementary cash flow information</b>		
Interest paid	—	—
Income taxes paid	—	—

*See accompanying notes*

**Rainy River Resources Ltd.**  
(formerly Collingwood Capital Corporation)

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

September 30, 2005

**1. NATURE OF OPERATIONS**

Rainy River Resources Ltd. (the "Company") was incorporated under the laws of the Province of British Columbia on July 14, 1982. The Company's principal business is the exploration, development and acquisition of mineral properties in Canada, and is in the process of exploring a property located in Ontario. The recoverability of amounts shown for mineral properties recorded in the Company's balance sheet are dependent on the existence of economically recoverable reserves, the ability of the Company to arrange appropriate financing to complete the development of its properties, the receipt of necessary permitting and upon achieving future profitable production or receiving proceeds from the disposition of the properties. The timing of such events occurring, if at all, is not yet determinable.

On February 25, 2005, the Company resolved to change its name from Collingwood Capital Corporation to Rainy River Resources Ltd. and split its common shares on a four new for one old basis. The Company's previous principal business was ownership of all the shares of Architectural Stone Corporation ("ASC") [see note 6].

The Company changed its financial year end in fiscal 2004 from June 30, 2004 to September 30, 2004. Consequently, the comparative financial statements are for the fifteen months ended September 30, 2004.

**2. SIGNIFICANT ACCOUNTING POLICIES**

**General accepted accounting principles**

These financial statements are prepared in accordance with Canadian generally accepted accounting principles. All amounts, unless specifically indicated otherwise, are presented in Canadian dollars.

**Basis of consolidation**

The consolidated financial statements include the accounts of the Company, and the results of operations of its 100% owned subsidiaries, 608457 B.C. Ltd. and ASC.

All inter-company transactions and balances have been eliminated.

**Rainy River Resources Ltd.**  
(formerly Collingwood Capital Corporation)

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

September 30, 2005

**2. SIGNIFICANT ACCOUNTING POLICIES (cont'd.)**

**Mineral properties**

The Company records its interests in mineral properties and areas of geological interest at cost. All direct and indirect costs relating to the acquisition of these interests are capitalized on the basis of specific claim blocks or areas of geological interest until the properties to which they relate are placed into production, sold or management has determined there to be an impairment in value. These costs will be amortized on the basis of units produced in relation to the proven reserves available on the related property following commencement of production. Mineral properties which are sold before that property reaches the production stage will have all revenues from the sale of the property credited against the cost of the property. Properties which have reached the production stage will have a gain or loss calculated based on the portion of that property sold.

The recorded cost of mineral properties is based on cash paid, the fair value of share considerations and exploration and development costs incurred. The recorded amount may not reflect recoverable value as this will be dependent on the development program, the nature of the mineral deposit, commodity prices, adequate funding and the ability of the Company to bring its projects into production.

**Deferred exploration costs**

The Company defers all exploration costs relating to mineral properties and areas of geological interest until the properties to which they relate are placed into production, sold, abandoned or management has determined there to be an impairment in value. These costs will be amortized over the proven reserves available on the related property following commencement of production.

**Accrued site closure costs**

The Company expects to record the fair value of a liability for an asset retirement obligation in the period in which it is incurred. This includes future removal and site restoration costs as required due to environmental law or contracts. A corresponding increase in the carrying amount of the related asset is generally recorded and depreciated over the life of the asset. Over time, the liability is increased to reflect an interest element (accretion expense) considered in its initial measurement at fair value. The amount of the liability will be subject to re-measurement at each reporting period.

**Cash and cash equivalents**

Cash and cash equivalents consist of highly liquid investments which are readily convertible into cash with maturity of three months or less when purchased.

**Rainy River Resources Ltd.**  
(formerly Collingwood Capital Corporation)

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

September 30, 2005

**2. SIGNIFICANT ACCOUNTING POLICIES (cont'd.)**

**Marketable securities**

Marketable securities are valued at the lower of cost and market value.

**Loss per share per share**

Basic loss per share is calculated by dividing net loss available to the shareholders by the weighted average number of common shares outstanding during the year. Diluted loss per share is calculated to reflect the dilutive effect of exercising outstanding stock options by application of the treasury stock method.

**Income taxes**

Income taxes are accounted for under the asset and liability method. Under this method, temporary differences arising from the difference between the tax basis of an asset and a liability and its carrying amount on the balance sheet are used to calculate future income tax assets or liabilities. Future income tax assets or liabilities are calculated using tax rates anticipated to be in effect in the periods that the temporary differences are expected to be settled or realized. A valuation allowance is provided to the extent that it is more likely than not future tax assets will not be realized.

**Financial instruments**

The Company's financial instruments consist of cash, short term investments, receivables, and accounts payable. Management estimates that the fair values of these financial instruments approximate their carrying values at the balance sheet dates.

**Office equipment and furniture**

Office equipment and furniture are stated at cost, net of accumulated amortization. Amortization is computed using the declining-balance method at the following annual rates:

Office computers	25%
Office equipment and furniture	20%
Operating equipment	30%

**Rainy River Resources Ltd.**  
(formerly Collingwood Capital Corporation)

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

September 30, 2005

**2. SIGNIFICANT ACCOUNTING POLICIES (cont'd.)**

**Stock-based compensation plan**

The Company has a stock-based compensation plan which is described in note 7. Effective July 1, 2002 the Company adopted the fair value based method of accounting for stock option awards granted to employees and directors, as prescribed by CICA 3870 *Stock-based Compensation and Other Stock-based Payments*. Under this method, the fair value of the stock options at the date of grant is amortized over the vesting period, with the offsetting credit to contributed surplus. If the stock options are exercised, the proceeds are credited to share capital and the fair value of the stock options at the date of grant is reclassified from contributed surplus to share capital.

**Use of estimates**

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingencies at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**3. MARKETABLE SECURITIES**

As at September 30, 2005, the quoted market value of marketable securities was \$313,663 [September 30, 2004 - \$1,023,219].

**4. AGREEMENT TO ACQUIRE RAINY RIVER PROPERTY**

On February 1, 2005 the Company entered into an agreement ("Rainy River Agreement") with Nuinsco Resources Ltd. ("Nuinsco") to purchase Nuinsco's 100-percent interest in the Rainy River mineral project, located in the Rainy River district of Northwestern Ontario. The Rainy River Agreement was subject to shareholder and regulatory approvals. Shareholder approval was obtained February 25, 2005 and final approval received from the TSX on June 28, 2005. The Rainy River Agreement replaced an agreement between Nuinsco and 608457 B.C. Ltd. ("608457 B.C.") with respect to the purchase and sale of the Rainy River mineral project, which was assigned by 608457 B.C. to the Company. The Company also agreed to purchase all of the shares of 608457 B.C. in exchange for 6,400,000 common shares and 6,400,000 share purchase warrants of the Company.

**Rainy River Resources Ltd.**  
(formerly Collingwood Capital Corporation)

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

September 30, 2005

**4. AGREEMENT TO ACQUIRE RAINY RIVER PROPERTY (cont'd.)**

Nuinsco is a Toronto-based mineral exploration company whose common shares are listed for trading on the Toronto Stock Exchange.

The material terms of the Rainy River Agreement with Nuinsco are:

1. Pursuant to the sale agreement respecting the Rainy River mineral project, Nuinsco is to be paid total cash payments of \$2.5 million, of which \$1,000,000 has been paid to date. The Company will pay the balance in equal quarterly installments of \$250,000 each. The first payment was made on October 15, 2005, and the additional five payments are due quarterly thereafter.
2. As security for payment of the purchase price, the Company has granted to Nuinsco a first mortgage and general security interest over the interest it acquires in the Rainy River property and all related assets.
3. In addition to the cash portion of the purchase price, the Company issued to Nuinsco on closing a total of 2,197,380 common shares at a fair value of \$0.12 per share. If the Company proposes to issue any additional securities in order to finance the continued development of the Rainy River property, Nuinsco shall have a pre-emptive right to participate in such financing, to a maximum of 7 percent thereof for a term of five years. The Company will also pay a bonus of \$2.5 million on commencement of commercial production or direct shipment of ore from the property. Nuinsco will also receive a quarterly royalty of \$1 per ton of ore produced from the property, subject to an annual consumer price index adjustment. All royalty payments will be paid quarterly.
4. A finders fee of 727,532 common shares was paid in respect of the transaction. In consideration for the acquisition of the issued and outstanding share capital of 608457 B.C. the Company issued 6,400,000 common shares and 6,400,000 share purchase warrants to the shareholders and warrant holders of 608457 B.C. in exchange on a one for one basis (one common share of the Company in exchange for one common share of 608457 B.C. and one warrant of the Company for one warrant of 608457 B.C.). The warrants to be issued by the Company will have an exercise price of \$0.50 and a term of one year.

The Company's acquisition of the Rainy River mineral project constituted a change of business under the policies of the TSX-V, and has received exchange acceptance and approval by the Company's shareholders.

**Rainy River Resources Ltd.**  
(formerly Collingwood Capital Corporation)

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

September 30, 2005

**5. MINERAL PROPERTIES**

The Rainy River mineral project acquired on February 1, 2005 as described in note 4 comprises a land package of approximately 16,530 hectares in 12 townships in Northwestern Ontario. Exploration to date has led to three mineral discoveries, the gold-bearing No. 17 zone and the No. 433 zone, two separate volcanogenic massive sulphide deposits and the high-grade No. 34 nickel-copper-PGM zone. The Company intends to evaluate all three zones by further drilling aimed at expanding the deposits and exploring for other potential mineral occurrences.

The Company's Rainy River Ontario mineral property consists of:

	\$
<hr/>	
<b>Acquisition costs</b>	
Cash payments paid and payable	2,500,000
Shares and stock options issued	590,454
Shares issued for finders fee	89,359
Property option payments	74,610
	<hr/>
	3,254,423
<b>Exploration costs</b>	
Compilation	203,954
Drilling	332,344
Grid control	17,013
Rental and automobile	20,831
Geological	39,657
Field expenses	151,000
Travel and subsistence	37,254
Consultants	94,200
	<hr/>
Total exploration expenses	896,253
	<hr/>
<b>Total costs, September 30, 2005</b>	<b>4,150,676</b>

**Rainy River Resources Ltd.**  
(formerly Collingwood Capital Corporation)

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

September 30, 2005

**6. DISCONTINUED OPERATION**

The Company's wholly-owned subsidiary, Architectural Stone Corporation ("ASC"), in Ontario, Canada was engaged in the development and operation of marble and limestone quarries, and the processing of dimensional stone into marble and limestone tiles and slabs for the construction industry. On September 30, 2003, the Company entered into an agreement for the sale of all the shares of ASC to ASC's management for \$260,000. Management considered June 30, 2003 the effective measurement date on which a formal plan for the disposal of ASC was adopted. On September 24, 2004, by mutual agreement, the Company terminated this sale agreement with the intended buyer. On October 15, 2004, ASC made an assignment pursuant to the Bankruptcy and Insolvency Act (Canada) and ceased operations.

The results of the discontinued operations are as follows:

	2005	2004
	\$	\$
Revenue	—	951,070
Cost of sales	—	1,286,118
	—	(335,048)
Write-off of loan balance	<b>80,000</b>	—
Legal, general and administrative	<b>48,020</b>	607,642
Operating loss	<b>(128,020)</b>	(942,690)
Write-down of accounts receivable	—	(345,260)
Write-down of other assets	—	(615,159)
Liabilities extinguished due to bankruptcy	—	1,643,109
Loss from discontinued operations	<b>(128,020)</b>	(260,000)

**Rainy River Resources Ltd.**  
(formerly Collingwood Capital Corporation)

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

September 30, 2005

**7. LONG TERM INVESTMENTS**

Long term investments comprise the following:

	2005	2004
	\$	\$
Investment in real estate	528,235	528,235
Property tax capitalized	2,975	35,431
	<b>531,210</b>	563,666
Write-down due to impairment	(2,975)	(35,431)
	<b>528,235</b>	528,235

On May 26, 2000, the Company purchased from 1225085 Ontario Ltd., a company controlled by a director of the Company, a parcel of land situated at 250 King Street West, Cambridge, Ontario, Canada. The market value of the property as per the most recent property tax assessment was \$602,000.

**8. SHARE CAPITAL**

**[a] Share capital**

**Authorized**

Unlimited [2004 - 100,000,000] Common shares without par value

Cancelled [2004 - 50,000,000] Class A preferred shares without par value

Cancelled [2004 - 50,000,000] Class B preferred shares without par value

	Number of shares	Capital Stock \$	Contributed Surplus \$
<b>Issued</b>			
As at September 30, 2004	13,981,466	4,743,033	—
Stock based compensation [note 8[b]]	—	—	442,662
Private placements	3,830,000	2,298,000	—
Warrants exercised	—	—	—
Stock options exercised	325,000	52,005	—
Acquisition of mineral property [note 4]	8,634,380	1,060,006	978,457
Finders fee	727,532	89,359	—
Share issue expenses	—	(168,000)	—
<b>As at September 30, 2005</b>	<b>27,668,378</b>	<b>8,074,403</b>	<b>1,421,119</b>

**Rainy River Resources Ltd.**  
(formerly Collingwood Capital Corporation)

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

September 30, 2005

**8. SHARE CAPITAL (cont'd.)**

**Private placements**

On September 16, 2005 the Company issued 4,000,000 units at \$0.60 per unit for gross proceeds of \$2,400,000. Each unit consisted of one common share and one non-transferable share purchase warrant. Each warrant entitles the holder to acquire one additional common share for \$0.90 until March 16, 2007. The Company paid share issue expenses of \$168,000. At the report date proceeds of 170,000 units of \$102,000 had not been received.

**[b] Stock options and warrants**

On January 4, 2005 all the stock options outstanding at September 30, 2004 were exercised for a total consideration of \$52,005.

A new stock option plan was approved during the current period. The Company now has a rolling stock option plan, whereby from time to time, at the discretion of the Board of Directors, stock options were granted to directors, officers and certain consultants. The number of shares reserved for issuance under the plan shall not exceed 10% of the issued and outstanding common shares of the Company. The exercise price of each option is based on the market price of the Company's common stock at the date of the grant less an applicable discount. The options may be granted for a maximum of five years.

Stock options and share purchase warrant transactions are summarized as follows:

	<b>Warrants</b>		<b>Stock options</b>	
	<b>Number</b>	<b>Weighted</b>	<b>Number</b>	<b>Weighted</b>
	<b>#</b>	<b>Average</b>	<b>#</b>	<b>Average</b>
		<b>Exercise Price</b>		<b>Exercise Price</b>
		<b>\$</b>		<b>\$</b>
Outstanding, September 30, 2004	—	—	325,000	0.16
Granted	10,400,000	0.65	2,360,000	0.39
Exercised	—	—	(325,000)	0.16
Expired/cancelled	—	—	—	—
<b>Outstanding, September 30, 2005</b>	<b>10,400,000</b>	<b>0.65</b>	<b>2,360,000</b>	<b>0.39</b>

**Rainy River Resources Ltd.**  
(formerly Collingwood Capital Corporation)

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

September 30, 2005

**8. SHARE CAPITAL (cont'd.)**

The following incentive stock options and share warrants were outstanding at September 30, 2005.

	<b>Number of Shares #</b>	<b>Exercise Price \$</b>	<b>Expiry Date</b>
Stock options	760,000	0.25	February 16, 2010
	740,000	0.28	March 17, 2010
	860,000	0.62	August 4, 2007
Warrants	6,400,000	0.50	June 20, 2006
	4,000,000	0.90	March 17, 2007

**[c] Stock-based compensation**

During the year the Company recognized stock based compensation of \$442,662 [2004 - \$nil] in the financial statement as a result of granting incentive based stock options.

The fair value of compensatory options and warrants granted is estimated on the grant date using the Black-Scholes option-pricing model. The weighted average assumptions used in the calculation of fair value are as follows:

Risk free interest rate	3.00%
Expected life in years	2-5 years
Expected stock price volatility	60.00%
Expected dividend yield	Nil

**Rainy River Resources Ltd.**  
(formerly Collingwood Capital Corporation)

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

September 30, 2005

**9. EQUIPMENT**

	Cost \$	Accumulated Amortization \$	Net Book Value \$
<b>2005</b>			
Office computers	27,928	17,666	10,262
Office furniture and equipment	35,259	4,980	30,279
Operating equipment	4,192	629	3,563
	<b>67,379</b>	<b>23,275</b>	<b>44,104</b>
<b>2004</b>			
Office computers	16,071	16,071	—
Office furniture and equipment	1,506	1,506	—
	<b>17,577</b>	<b>17,577</b>	—

**10. INCOME TAXES**

[a] A reconciliation of income taxes at statutory rates with the reported taxes is as follows:

	2005 \$	2004 \$
Loss from continuing operations before income tax recovery	<b>(681,327)</b>	(214,082)
Combined federal and provincial statutory tax rate	<b>35.62%</b>	35.62%
Income tax recovery at federal and provincial statutory tax rates	<b>(242,689)</b>	(76,256)
Non-deductible items for tax purposes	<b>1,146</b>	359
Stock based compensation	<b>157,676</b>	—
Share issuance costs	<b>(11,968)</b>	—
Unrecognized benefits of non-capital losses	<b>95,835</b>	75,897
Total income tax recovery	—	—

**Rainy River Resources Ltd.**  
(formerly Collingwood Capital Corporation)

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

September 30, 2005

**10. INCOME TAXES (cont'd.)**

[b] Details of future income tax assets are as follows:

	2005	2004
	\$	\$
Future tax assets:		
Non-capital loss carryforwards	417,139	322,446
Net capital loss carryforwards	1,400,979	1,372,492
Share issuance costs	47,873	—
	<b>1,865,991</b>	1,694,938
Valuation allowance	<b>(1,865,991)</b>	(1,694,938)
	—	—

Future tax benefits, which may arise as a result of these losses and resources expenditures have been offset by a valuation allowance and have not been recognized in these consolidated financial statements.

As at September 30, 2005, the Company has non-capital losses of \$1,171,082. That may be applied against future income taxable income. These losses will expire in various years from 2006 to 2015. The Company also had capital losses of \$3,933,124 which can be used to offset future capital gains and can be carried forward indefinitely.

The possible future income tax benefits of these losses have not been recorded in the financial statements because it is uncertain whether such future income tax assets will be realized.

Year of expiry:	Non Capital Loss \$
2006	96,649
2007	—
2008	—
2009	333,226
2010	264,907
2014	210,456
2015	265,844
	<b>1,171,082</b>

**Rainy River Resources Ltd.**  
(formerly Collingwood Capital Corporation)

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

September 30, 2005

**11. RELATED PARTY TRANSACTIONS**

- [a] During the year ended September 30, 2005, the Company paid administration management fees of \$45,000 [fifteen months ended September 30, 2004 - \$nil] to a company controlled by a director. At September 30, 2005, accounts payable includes an amount of \$5,350 [2004 - \$nil] owing to a company controlled by the President.
- [b] During the year ended September 30, 2005, the Company paid exploration management fees of \$94,200 [fifteen months ended September 30, 2004 - \$nil] to a company controlled by the President
- [c] During the year ended September 30, 2005, ASC paid management fees of \$nil [fifteen months ended September 30, 2004 - \$187,500] to and made purchases of \$nil [15 months ended June 30, 2003 - \$250,155] from companies controlled by the former President of ASC.
- [d] During the year ended September 30, 2005, ASC made advances of \$nil [15 months ended September 30, 2004 - \$338,525] to companies controlled by the former President of ASC. These advances were considered uncollectible by the Company and have been fully allowed for at September 30, 2004.

**12. FINANCIAL INSTRUMENTS**

Fair value estimates of financial instruments are made at a specific point in time, based on relevant information about financial markets and specific financial instruments. As these estimates are subjective in nature, involving uncertainties and matters of significant judgment, they cannot be determined with precision. Changes in assumptions can significantly affect estimated fair values.

The carrying value of cash and cash equivalents, marketable securities, accounts payable and accrued liabilities and current assets and current liabilities of discontinued operations approximate their fair value because of the short-term nature of these instruments.

The Company is not subject to significant currency risk, interest and credit risks arising from these instruments.

**Rainy River Resources Ltd.**  
(formerly Collingwood Capital Corporation)

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

September 30, 2005

**13. SUBSEQUENT EVENTS**

- [a] On December 19, 2005, the Company closed on a non-brokered private placement of 1,250,000 flow through common shares at \$0.80 per share for gross proceeds of \$1,000,000. The Company paid a finders fee of \$52,920 in connection with the private placement. Net proceeds will be used to fund exploration on the Company's Rainy River Project.
- [b] On December 22, 2005, the Company closed a brokered private placement of 1,100,000 common shares at \$0.80 per share for gross proceeds of \$880,000. The proceeds will be used to fund exploration on the Company's Rainy River Project.
- [c] Subsequent to year-end, the Company's President exercised options to purchase 500,000 common shares at \$0.25 per share for proceeds of \$125,000. On November 24, 2005 the Company entered into a loan agreement with the President under which the Company agreed to loan the President \$125,000. The loan is repayable in full by November 23, 2006, will be interest at the rate of 3% p.a. and is partially collateralized by way of promissory note with a pledge of 500,000 common shares of the Company.

**Rainy River Resources Ltd.**  
(formerly Collingwood Capital Corporation)

**SCHEDULE OF GENERAL AND  
ADMINISTRATIVE EXPENSES**

	Year ended September 30 2005 \$	Fifteen months ended September 30 2004 \$
<b>General and administrative expenses</b>		
Accounting, audit and legal	214,485	132,299
Bank charges and interest	409	247
Consulting and professional	109,173	88,744
Foreign exchange loss	1,039	896
Office and miscellaneous	20,684	7,859
Regulatory and filing fees	74,434	22,191
Telephone	9,092	2,100
Travel and entertainment	22,501	10,743
Donations	500	—
Investor relations	2,000	—
Rent	14,520	—
	<b>468,837</b>	<b>265,079</b>